

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Develop)
Additional Methods to Implement the California) Rulemaking: 06-02-012
Renewables Portfolio Standard Program) (Filed February 16, 2006)
_____)

**Prehearing Conference Statement
of the California Wind Energy Association
and the California Cogeneration Council**

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On Behalf of
**CALIFORNIA WIND ENERGY ASSOCIATION and
CALIFORNIA COGENERATION COUNCIL**

December 6, 2007

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The California Wind Energy Association (CalWEA) and the California Cogeneration Council (CCC) are pleased to present the following prehearing conference statement, as requested in the “Administrative Law Judge’s Ruling Setting Prehearing Conference and Requesting Prehearing Conference Statements” (ALJ Ruling), dated November 21, 2007, in the above-captioned proceeding. CalWEA and the CCC expect to participate actively in the next phase of this proceeding, particularly on issues concerning the calculation of the 2008 market price referent (MPR). CalWEA / CCC present below their views on the process and issues involved in the Commission’s planned review of the 2008 MPR.

I. PROCESS: Develop the 2008 MPR Through Workshops and Comments

Both the CalWEA and the CCC have participated actively on MPR issues since the initial implementation of the RPS program in 2004. Over the past four years, the Commission has successfully developed and refined the MPR through the use of workshops, comments, and informal discussions facilitated by the Energy Division, rather than through formal evidentiary hearings. The workshop/comment format worked well both in 2004 when the MPR was created and in 2005 when it was revised.¹ The 2006 and 2007 MPRs were refined through discussions among the parties, facilitated by the Energy Division. The refinements to the MPR in these years

¹ See D. 04-06-015, at 2-4, and D. 05-12-042, at 2-4.

were limited to changes in input assumptions and corrections to the MPR model. Resolution E-4118 approving the 2007 MPR made clear that the Commission would like to see a “more robust” evaluation of the MPR in 2008.² CalWEA and the CCC support a thorough review of the MPR in 2008, and propose that the Commission conduct that review using a process of workshops and comments, similar to the procedure employed in 2004 and 2005. The Commission should build on the parties’ past cooperative work on the MPR, by using a process that encourages as much dialogue and consensus as possible on MPR issues. For example, the Commission could schedule (1) a round of pre-workshop comments and proposals, (2) as many days of workshops as needed (depending on the number of distinct changes to the MPR that are proposed), (3) a workshop report from the Energy Division, and (4) post-workshop opening and reply comments.

CalWEA and the CCC also support having the Energy Division continue to take the lead on MPR issues, by facilitating the workshop/comment process on 2008 MPR issues. We also encourage the Energy Division to take advantage of the technical support on MPR issues that may be available from Energy & Environmental Economics (E3), to the extent that the Energy Division’s budget and contract with E3 allow. CalWEA and the CCC have found E3’s involvement on MPR issues to have been very helpful in the past, particularly in proposing compromise solutions to technical MPR issues and in developing new data sources for key MPR input assumptions, such as the MPR’s financing parameters.

The ALJ Ruling contemplates that the next phase of this proceeding also will consider issues concerning the implementation of tradable renewable energy credits (RECs). CalWEA and the CCC strongly urge the Commission to consider 2008 MPR issues on a separate and distinct track from tradable REC issues. First, TURN and Aglet have requested limited hearings on tradable REC issues, in a motion filed in this docket on November 28, 2007; in contrast, CalWEA and the CCC are hopeful that 2008 MPR issues will not require formal hearings. In

² Resolution E-4118 (October 4, 2007), at 18.

addition, many of the parties that have participated on REC issues in the past have not been active on MPR-related matters. Furthermore, the Commission's consideration of the 2008 MPR needs to be completed in time to develop and publish the 2008 MPR in coordination with the short list of bidders who respond to the utilities' 2008 Request for Offers (RFOs) under the Renewable Portfolio Standard (RPS) program. The development of the 2008 MPR is an integral part of the ongoing RPS program, and thus MPR issues need to be considered and resolved in a timely fashion so as not to delay the next RPS solicitations. In contrast, a program of tradable RECs would be a new feature added to the RPS landscape, and the Commission needs to take the time necessary to structure the REC market correctly and to coordinate tradable RECs with California's other key environmental initiatives, such as AB 32.

II. ISSUES CONCERNING THE 2008 MPR

Resolution E-4118 states, at page 18, that "the Commission intends to examine the MPR in 2008 to determine what refinements should be made to the MPR methodology, including how the costs of [greenhouse gas] emissions should be reflected in the MPR for 2008 and later years." CalWEA and the CCC strongly support the Commission's decision to examine refinements to the MPR methodology, and provide below a preliminary list of issues to consider. CalWEA and the CCC offer this list of possible refinements under the assumption that the MPR will continue to be designed to reflect, as specified in the RPS statute, "... the long-term ownership, operating, and fixed-price fuel costs associated with fixed-price electricity from new generating facilities,"³ specifically, the all-in costs of a new natural gas-fired combined-cycle gas turbine (CCGT) power plant located in California.⁴ In other words, CalWEA and the CCC assume that the purpose of this proceeding will be to refine, not to replace, the existing approach to calculating the MPR. Under that assumption, CalWEA and the CCC submit that the Commission should consider refinements to the MPR that include, but are not necessarily limited to, the following issues:

³ P.U. Code Section 399.15(c)(2).

⁴ D. 03-06-071, at 19 and Finding of Fact 13.

- **GHG Adder.** D. 07-09-024 adopted the use of a greenhouse gas (GHG) adder in calculating the 2007 MPR, but made clear that the authorization for a GHG adder was limited to the 2007 MPR.⁵ The GHG adder included in the 2007 MPR is based on a series of GHG mitigation costs approved by the Commission in D. 04-12-048; the calculation of the adder assumes that a new CCGT plant would not bear such costs until 2012. CalWEA and the CCC continue to support the use of a GHG adder to the MPR, but believe that the structure and calculation of the adder may need refinement, particularly as more detailed information becomes available on the AB 32 program for the comprehensive regulation of GHG emissions in California.
- **CCGT Capital Costs.** CalWEA and the CCC continue to be concerned that the MPR model is based on a capital cost for a new CCGT that does not reflect fully the extraordinary increases in power plant construction costs that the state and the U.S. have experienced over the past several years. Although Resolution E-4118 adopted the use of somewhat higher construction cost escalators in determining current CCGT capital costs, the Commission should consider whether further refinements to CCGT capital costs are needed in the 2008 MPR model.
- **Fuel Price Risk Premium.** By statute, the MPR is supposed to represent the cost of a new generating facility with a fixed-price fuel contract. It is debatable whether the current MPR model accurately incorporates the cost premium, above the long-term forecasted market price for natural gas, that a CCGT owner would pay to secure a fixed-price gas supply for up to 20 years, thus eliminating the risk of gas price volatility. The California Energy Commission recently presented modeling results suggesting that an MPR based on a fixed-price gas supply would be 13% to 17% higher than the current MPR.⁶ CalWEA and the CCC believe that the Commission should examine whether the 2008 MPR should be revised to include a premium for the mitigation of fuel price risk.
- **TOU Factors.** CalWEA and the CCC submit that the Commission should review the basis for the time-of-use factors used in the MPR model. The Commission presently allows each utility to propose its own set of TOU factors in its RPS RFO; these are the factors used in the MPR model. CalWEA and the CCC do not necessarily oppose the current sets of TOU factors used in the MPR model, but observe that there are substantial differences between the TOU factors of the three IOUs, even though the three utilities operate in the same or closely related wholesale markets. These differences have a significant impact on the MPR model's calculation of the CCGT capacity factor. In 2005, the Commission required the utilities to submit benchmarking studies justifying their

⁵ D. 07-09-024, at 7, 9, and Ordering Paragraph 2.

⁶ California Energy Commission, *2007 Integrated Energy Policy Report* (adopted December 5, 2007; CEC Publication CEC-100-2007-008-CTF), at 181 - 183, especially Tables 4-9, 4-10, and 4-11, available at http://www.energy.ca.gov/2007_energypolicy/index.html.

choice of TOU factors for their RPS RFOs (D. 05-12-042, at 22), then the Commission reviewed and approved those studies and factors in D. 06-05-039 (at 66-73). CalWEA and the CCC believe that the 2008 MPR review would benefit from the utilities' submission of new benchmarking studies justifying their choice of TOU factors.

- **GMM.** The MPR model uses a GMM of 0.985 to determine line losses on the CAISO system; this GMM is equivalent to 1.5% transmission line losses. Actual CAISO system average lines losses appear to be closer to 3%. Thus, the GMM used in the MPR model may be understated. Furthermore, GMMs will no longer be used or available as the CAISO's line loss metric after the CAISO's MRTU program is implemented in the spring of 2008. Thus, there needs to be a replacement for the use of GMMs as the basis for the line loss adjustment to the MPR.
- **Updates to the MPR Input Assumptions.** As the Commission has done with each year's MPR, the Commission should update the input assumptions to the MPR model, to the extent that new or updated information is available. These assumptions include the heat rate, capital costs, O&M costs, and financing assumptions for a new CCGT, as well as natural gas commodity and transportation costs.

CalWEA and the CCC look forward to participating actively in discussions of these issues, and of any other proposed refinements to the MPR calculation.

Respectfully submitted,

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